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OFFICE OF THE  
EXECUTIVE SECRETARY

February 23, 1999

David Waddell  
Executive Director  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

99-00130

Re: ***Notification of Asset Purchase Agreement by and among AT&T, SmarTalk TeleServices, Inc. and Certain Subsidiaries, and Request for Permission to assume certificate pursuant to T.C.A. § 65-4-113***

Dear Mr. Waddell:

AT&T by its undersigned counsel and pursuant to T.C.A. § 65-4-113, respectfully requests permission from the Tennessee Regulatory Authority for conditional authority to acquire the assets and certificate of public convenience and necessity of SmarTalk TeleServices, Inc., ("SmarTalk") and to adopt SmarTalk's tariff, if AT&T and SmarTalk close the Asset Purchase Agreement (Agreement) entered into between them on January 19, 1999. The details of the proposed transaction are more fully set forth below.

Pursuant to an Asset Purchase Agreement (the "Agreement") dated January 19, 1999, by and among AT&T, SmarTalk, and certain subsidiaries of SmarTalk (collectively "SmarTalk"), AT&T will acquire substantially all the assets, properties, business, and goodwill of SmarTalk for approximately \$192.5 million, and also will assume certain liabilities.

SmarTalk TeleServices, Inc. is a California corporation, with its principal place of business at 5080 Tuttle Crossing Boulevard, Dublin, Ohio 43016-3566. SmarTalk develops, manufactures, sells, and provides prepaid telecommunications products and services, including prepaid local and long-distance calling cards and prepaid wireless telephones and services. It has distribution relationships with national and regional retailers and co-brands calling cards for corporate and product promotions. Its total revenues for 1997 were approximately \$71 million. SmarTalk was a publicly traded company (NASDAQ: SMTK) until January 19, 1999. The last trading price of SmarTalk's common stock on that day was \$1.90625 per share.

At the present time, SmarTalk is operating on a business-as-usual basis, under Chapter 11 of the United States Bankruptcy Code, as a debtor-in-possession, subject to

approval of the United States Bankruptcy Court for the District of Delaware in Wilmington (Case Numbers 99-108 through 99-127 (MFW)). SmarTalk filed on January 19, 1999, a motion for authorization to sell Assets to AT&T. The Agreement makes the approval of the bankruptcy court (including the court's approval of the Agreement, the asset sale, the assignment and assumption of the contracts and a finding of AT&T as a "good faith" purchaser) a condition to closing. It is AT&T's intent to close this proposed transaction on or before April 1, 1999. At that time, AT&T will adopt SmarTalk's intrastate tariffs and assume responsibility for serving SmarTalk's customers.

The assets to be acquired at the closing of the proposed transaction include: leased real property; contracts with suppliers and customers; intellectual property (owned, licensed and patent/trademark applications); certain telecommunications equipment and facilities; office furniture and equipment; books and records; and cash on hand, accounts receivable and other current assets as shown on the balance sheet as of the closing.

As part of the Agreement, AT&T will assume the unused minutes on all SmarTalk's Prepaid Calling Cards and for all Prepaid Wireless Obligations. The Prepaid Calling Card obligations include all cards sold or distributed by SmarTalk prior to the Closing Date entitling the holder to make local, long distance or international telephone calls having a duration not in excess of a pre-existing amount of calling time (without further payment) but excluding cards first activated (or last recharged) earlier than two years prior to the Closing Date. Prepaid Wireless Obligations include the obligations to provide prepaid units of wireless calling time to any end-user customer in connection with products, sold or distributed by Sellers prior to the Closing Date, but excluding any such obligations for prepaid cards or prepaid phones first activated earlier than three months prior to the Closing Date.

SmarTalk currently holds a Certificate of Convenience in Tennessee. In furtherance of the Agreement, AT&T requests permission to assume that existing SmarTalk Certificate in accordance with TCA § 65-4-113, which states that no public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the public service commission, to any individual, partnership, corporation or other entity without first obtaining the approval of the Authority.

Please do not hesitate to contact me if you have any questions regarding this transaction.

Sincerely,

  
Jim Lamoureux